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Capital Gains: If It Ain't Broke...

Highlights

1. This Trends issue presents the well-documented success record of the 1978 and 1981 capital gains tax cuts. It's a familiar story, but one worth repeating despite the almost certainty of eliminating the differential.

2. An old fact: Treasury revenues have increased in every year since 1978 in response to lower capital gains taxes. A new point: Taxes paid on capital gains jumped 45.8% to $18.8 billion in 1983 from $12.9 billion in 1982.

3. An estimate of $19.3 billion is cited by government staff as the amount of revenue to be raised by the elimination of the capital gains exclusion. Both actual experience and recent studies, including the Treasury's, negate the magnitude of such an estimate.

4. Investment data -- shareownership, IPOs, venture capital, market indices -- support the position that lower taxes on savings and investment have contributed to the strength of the economy.

5. A comparison of 1973 and recently released 1981 holding period data on corporate stock show most investors invest for the long-term. For these two years, only 10% of gross gain was taken under the one-year mark, suggesting that estimates of revenues raised by imposing a barrier on the free flow of capital are unimportant. The elimination of the holding period is a step in the right direction; higher taxes on capital gains are not.

Introduction

Congress is near completion of its major effort to reform and simplify the tax code. Lower individual tax rates, the elimination of many provisions which lead to tax abuses, and the removal of millions of low income persons from the tax rolls are noteworthy accomplishments. Given the magnitude of the tax reform efforts now underway, within the tax conferees' decisions lies the path of future economic growth.

Indeed, economic growth is at the core of the tax reform movement. The radical transformation of the current tax code presents a unique challenge to those attempting to forecast economic growth. Some of the bill's effects will be immediate, others will take years to emerge. Many savings and investment incentives have been traded off for lower rates. Savings and investment perform a critical function in the growth process. True, lower rates should encourage individuals to save and invest more, but these lower rates will not necessarily foster risk-taking nor offset the erosion of inflation on assets.

Lower capital gains rates have proved effective and efficient at stimulating savings and investment. Historical experience documents the beneficial economic consequences of investment incentives in the tax code. Moreover, the revenue data since the 1978 and 1981 capital gains tax cuts should prove that substantial revenues cannot be derived from higher capital gains rates. All evidence supports the position that lower capital gains taxes have contributed to the strength of our economy. To raise capital gains taxes is to damage a proven tool for fostering economic growth.

The following presents the well-documented success story of lower capital gains taxes. The capital gains story is a familiar one to many, but evidently not familiar enough to some who, though concerned with economic growth, are considering higher capital gains taxes.

Impact of Capital Gains Tax Changes 1978 & 1981

The Revenue Act of 1978, through an increase in the capital gains tax exclusion from 50% to 60% and other changes, cut the maximum capital gains tax rate from 49% to 28%. Congress enacted that legislation because the high tax rate on capital gains contributed to a shortage of funds for capital formation, a decline in economic growth and a deterioration in the competitive position of the U.S. The 1981 drop in marginal tax rates enhanced the returns from savings and investment and reduced the maximum tax on capital gains to 20%.

Although no one factor is responsible for the decision to save or invest, the after-tax return on investment is clearly a prime consideration. The capital gains tax cuts of 1978 and 1981 improved after-tax returns, thus fostering conditions for increased savings and investment. Among the considerable evidence supporting the effectiveness and efficiency of these cuts are dramatic increases in initial public offerings and the pool of venture capital. Funds raised in these markets have allowed budding enterprises to develop and underscore the positive impact the 1978 and 1981 capital gains tax cuts had on capital formation.

Table I

Initial Public Offerings
($ millions)

Year	Number of Issues	Share Value
1977	40	$ 153
1978	46	250
1979	81	506
1980	237[1/]	1,397
1980	152[2/]	1,400
1981	355	3,200
1982	124	1,400
1983	687	12,500
1984	354	3,900
1985	360	8,600
6/86	281	8,800

Sources: Going Public and Investment Dealers' Digest.

1/ Going Public
2/ Investment Dealers' Digest

Note: Going Public has been incorporated into IDD. IDD's data base on IPOs starts with 1980 and is not strictly comparable with the Going Public data base.

Initial Public Offerings

After the 1978 capital gains cut, the increased market value placed on the stocks of smaller companies produced a market climate conducive to the initial public offerings (IPOs) of new and emerging companies. The public was willing to provide emerging companies with equity for expansion and investment. In contrast, with increased capital gains taxes in the late 1960s came the almost complete evaporation of the IPO market.

From 1969 to 1975, the number of issues and amount of dollars raised in the new issue market plunged 99%, from 548 issues raising $1,457.7 million to 4 issues raising $16.2 million. In the first half of 1978, only 16 companies went public, raising a meager $64.2 million. When passage of the Revenue Act was imminent in the second half of 1978, 29 companies came to market, raising three times the capital obtained during the first half. From 1979 to 1985, the number of companies going public increased impressively and the amount of money raised soared.

During this period, 1983 marked an exceptional year. Boosted by initial public offerings of thrift institutions converting from mutual to stock companies, new issues numbered 687 and funds raised totaled $12.5 billion. Moreover, despite adverse market conditions, 1984 saw an impressive 354 companies go public, raising $3.9 billion. In 1985, a dramatic $8.6 billion was raised by 360 IPOs and, at the half-year mark, new dollars invested in growing companies in 1986 already exceeded the 1985 amount.

Venture Capital

Venture capital is a critical link in the process of entrepreneurship, business formation, and small firm expansion through innovative activity.[1/] Following the 1969 capital gains tax increase, new funds committed to venture capital firms averaged only $58 million in the 1970-77 period, reaching a peak of $97 million in 1970 and a low of $10 million in 1975. The size of the venture capital pool virtually stagnated during that period at an estimated $2.5-$3.0 billion.

1/ The State of Small Business: A Report of the President, May 1985

Table II

Venture Capital
Committed & Disbursed
($ Millions)

Year	Net New Private Capital Committed to Venture Capital Firms[1/]	Size of Total Pool	Estimated Disbursements to Portfolio Companies
1977	$ 39	$2,500-3,000	$ 400
1978	600	3,500	550
1979	300	3,800	1,000
1980	700	4,500	1,100
1981	1,300	5,800	1,400
1982	1,800	7,600	1,800
1983	4,500	12,100	2,800
1984	4,200	16,300	3,000
1985 E	3,000	19,300	2,600

Source: Venture Economics, Inc.

1/ Total net private capital less capital withdrawals.

In 1978, however, venture capital firms raised a striking $600 million. After dipping to $300 million in 1979, venture capital committed leaped to $700 million in 1980, $1.3 billion in 1981, and reached a high of $4.5 billion in 1983. Commitments in 1984 and 1985 were $4.2 billion and an estimated $3.0 billion, respectively. The venture capital pool has expanded dramatically from $3.5 billion in 1978 to an estimated $19.3 billion in 1985.

Correspondingly, disbursements have climbed significantly, with an estimate of almost $6 billion disbursed to new businesses in 1984 and 1985. Of these recent disbursements, almost three-fourths went to computer, electronics, communications and medical health care related companies. Venture capital experts believe that the vigorous and sustained expansion of the venture capital industry resulted primarily from government actions that: (1) reduced the capital gains tax in 1978; (2) relaxed pension trust investment rules in 1979; and (3) further reduced the maximum tax on investment income from 70% to 50% in 1981.

Table III
Shareownership

Survey Year	Shareowners (millions)	% Change	Shareowners as % of Population
1965	20.1	--	--
1970	30.9	53.3%	15.1%
1975	25.3	(18.1)	11.9
1980	30.2	19.5	13.5
1981	32.3	6.8	14.4
1983	42.4	31.3	18.1
1985	47.0	11.0	20.1

Source: NYSE

Shareownership

The number of individuals owning stocks has waxed and waned with the tax burden on investment income. Shareownership as reported by the NYSE climbed steadily for almost two decades, reaching a peak in 1970 of 30.9 million individuals, or 15.1% of the population. With increased taxes on capital gains in the 1969-77 period, shareownership diminished. From 1970 to 1975, shareownership dropped 18% to 25.3 million individuals, or 11.9% of the population. However, by mid-1980, shareownership was on an uptrend, one that has continued until at least mid-1985, the latest survey period. At mid-1985, 47.0 million individuals directly owned stock or mutual funds, representing 20% of the population. This figure excludes "indirect" shareownership; that is those individuals who participate in pension plans with huge investments in the equity markets.

Stock Market Indices

Lower taxes on investment income have played a major role in stimulating new shareownership. The increased value placed on the stocks of smaller companies has produced market conditions encouraging entrepreneurship and innovation.

In most years since 1977 the stock market indices have scored healthy gains. Of particular note is the impressive rise of the NASDAQ Index, which represents smaller companies and attracts the individual investor hoping for investment return in the form of capital gains. In years of rising markets, the NASDAQ Index has outpaced both the S&P 500 Index and the NYSE Common Stock Index. In 1985, all major market indices increased by over 20%, but the NASDAQ Index chalked up a gain of over 30%.

Table IV

Stock Market Indices

Period	S&P 500 Index	NYSE Common Stock Index	AMEX Market Value Index	NASDAQ Index
12/78-12/79	12.3%	15.5%	64.1%	28.1%
12/79-12/80	25.8	25.7	41.3	33.9
12/80-12/81	(9.7)	(8.7)	(8.1)	(3.2)
12/81-12/82	14.8	13.9	5.7	18.7
12/82-12/83	17.3	17.5	N.C	19.9
12/83-12/84	1.4	1.3	(8.4)	(11.2)
12/84-12/85	26.3	26.1	20.5	31.4

International Tax Treatment of Capital Gains

In 1978, the trend of taxation of investment income in the U.S. made a distinct turn. Shifting from a system that penalized savings and investment -- with capital gains rates as high as 49% and marginal tax rates of 70% on interest and dividends -- the U.S. has reduced the tax burden on savings and investment in recent years. These positive steps brought the U.S. treatment of savings and investment closer to that of foreign countries. Nevertheless, an SIA-commissioned study by Arthur Andersen & Co. of the international tax treatment of capital gains showed that the U.S. tax system is harsher than that of major industrial countries and countries in the Pacific Basin, one of the fastest growing economic areas in the world.

Of the sixteen foreign countries reviewed, nine exempt capital gains completely from taxation. In terms of the maximum tax rate applying to short-term capital gains, only two countries apply a rate higher than the U.S. Sweden uses the same rate as the U.S. Australia sets a 61% tax on short-term gain, with a one-year holding period required for tax exemption as a long-term gain. Moreover, Germany, with a 56% short-term rate, requires six months for long-term gain exemption and exempts short-term gain up to DM 1,000 ($305+).[2/] The remaining four countries taxing short-term gain apply rates ranging from 16% to 35%, substantially below the current U.S. maximum rate.

Eleven of the sixteen foreign countries exempt long-term capital gains from taxation. Of those countries taxing long-term gain, only two apply rates higher than the U.S. and Sweden uses a 20% rate. The U.K., however, offsets its 30% rate in part with an annual exemption of L 5,600 ($7,140). Canada and France apply rates of 17% and 16%, respectively, to short- and long-term gain. In addition, annual securities sales of under FF 251,500 ($27,237) in France are exempt from capital gain taxation.

2/ Conversions in this section as of April 15, 1985.

Table V

Comparison of Individual Taxation of Capital Gains
on Portfolio Stock Investment in
Industrialized & Pacific Basin Countries

Country	Maximum Short-Term Capital Gain Tax Rate*	Maximum Long-Term Capital Gain Tax Rate*	Period to Qualify for Long-Term Gain Treatment	Maximum Annual Net Worth Tax Rate
United States				
Current Law	50%	20%	Six Months	None
House Bill	38%	22%	" "	"
Senate Finance Bill	27%	27%	None	"
Industrialized Countries				
Australia	61%	Exempt	One Year	None
Belgium	Exempt	Exempt	None	None
Canada	17%	17%	None	None
France*1	16%	16%	None	2%
Germany	56%	Exempt	Six Months	.5%
Italy	Exempt	Exempt	None	None
Japan	Exempt	Exempt	None	None
Netherlands	Exempt	Exempt	None	.8%
Sweden	50%	20%	Two Years	3%
United Kingdom*2	30%	30%	None	None
Pacific Basin				
Hong Kong	Exempt	Exempt	None	None
Indonesia	35%	35%	None	.5%
Malaysia	Exempt	Exempt	None	None
Singapore	Exempt	Exempt	None	None
South Korea	Exempt	Exempt	None	None
Taiwan	Exempt	Exempt	None	None

Note: Based on exchange rates on April 15, 1985. Special allowances or exemptions upon conversion to U.S. dollars may appear less generous than intended by deliberate public policy due to the strong position of the U.S. dollar since our last comparative international study in June 1983.

* State, provincial and local tax rates not included.

*1 Gains from proceeds of up to $27,237 (FF 251,500) are exempt from taxation in a given taxable year.

*2 The first $7,140 (L 5,600) of gain is exempt annually.

Revenue Impact

The experience since 1978 should be incorporated into any assessment of the revenue impact of a change in capital gains taxation.

Prior to the 1978 capital gains tax cut, opponents of the cut argued two main points. First, capital gains tax revenues would decline because of the lower rates and, second, any spurt in gains realized from 1978 to 1979 would be a one-time phenomenon, with gains drifting to lower levels by 1980. The following data disprove both arguments. Actual experience demonstrates the fallacy of the static revenue estimation technique, which assumes that loophole closings and lower rates will have no effect whatever on the behavior of taxpayers, the growth of taxable income or anything else in the economy.[3/] To assume that individuals do not respond to tax changes defeats the very purpose of tax reform!

Revenues

Capital gains tax revenues collected in 1979 and 1980 exceeded Treasury projections for those years before passage of the 1978 Revenue Act. Moreover, taxes paid on capital gain income continued to increase in 1981 and 1982. The 1982 revenue figure is notable as the phase-in of lower marginal tax rates as established in the 1981 Tax Act had begun and the U.S. was in the midst of a recession. The impressive 1983 level may represent a new plateau. Capital gain revenues spurted 45.8% in 1983 to $18.8 billion from the 1982 figure. Based on actual total gains of $140.5 billion, the American Council on Capital Formation estimates the 1984 tax take at $21.6 billion.

Realizations

Capital gains rate reductions have prompted dramatic increases in realizations. From 1978 to 1979, realizations jumped 45.3% to $73.4 billion. By comparison, total capital gains realized increased 11.5% to $50.5 billion in 1978 from $45.3 billion in 1977. Total realizations have continued to rise from the 1979 plateau. The Economic Recovery Tax Act of 1981, which cut the maximum tax on investment income to 50%, further encouraged realizations. Realizations in 1982 were $90.2 billion, representing an 11.5% increase from the 1981 figure. In addition, based on data from the Statistics of Income series, 1983 sales of capital assets jumped 43.6% to $49.4 billion from the 1982 level of $34.4 billion and increased almost 7% to $52.8 billion in 1984.

3/ "Tax Reform, An Editorial Series," The Wall Street Journal, April 1985.

Table VI

Revenues and Realizations
($ Billions)

	SOI Series	Treasury Series		
	Sales of Capital Assets (net gain less loss)	Total Gains	Taxes Paid on Capital Gain Income	Effective Tax Rates
1977	$20.8	$45.3	$8.1	17.88%
1978	23.2	50.5	9.3	18.50
1979	28.4	73.4	11.7	15.89
1980	29.7	74.6	12.5	16.71
1981	30.8	80.9	12.7	15.61
1982	34.4	90.2	12.9	14.31
1983	49.4	122.0	18.8	15.41
1984	52.8	140.5	21.6[1/]	15.41[1/]

Source: Statistics of Income Bulletin and Office of the Secretary of the Treasury, Office of Tax Analysis.

1/ American Council on Capital Formation estimate.

Recent Studies

Many studies on the effects of the 1978-81 capital gains tax reductions have been done. Most observers agree with the conclusion of Treasury's study on the 1978 cut: The findings suggest that long run annual revenue from capital gains taxes either increased or declined only slightly as a result of the capital gains tax reductions in the 1978 and 1981 Acts.[4/] In other words, the revenue effect of these changes in capital gains tax rates was minimal. Treasury also stated that, within the parameters of current tax law, any effort to raise substantial revenue by increasing capital gains tax rates is likely to be ineffective.

Using approximate relationships between realizations and tax rates as estimated in the Treasury study, deSeve Economics Associates studied the revenue impact of changes in capital gains taxation as contained in the President's proposal and the House bill.[5/] The results indicated that in response to the

4/ Report to Congress on the Capital Gains Reductions of 1978, Office of the Secretary of the Treasury, Office of Tax Analysis, September 1985.

5/ The Effect of Proposed Capital Gains Tax Rate Increases on Federal Individual Income Tax Revenues, deSeve Economics Associates, Inc., May 1986.

capital gains increase in the House bill, taxpayers will reduce realizations to such a degree that 99% of the static revenue increase will be offset over the five-year budget period. In the first three years of such an increase, capital gains revenues will actually be lower. The capital gains tax reduction in the President's proposal would have a negligible revenue impact over five years, with revenues increasing in the first three years.

In addition, a recent paper by Lawrence Lindsey of the National Bureau of Economic Research examined the effects of capital gains tax rate changes on realizations and revenues.6/ The paper concluded that capital gains tax revenue is probably maximized at a rate below 20%. Considering data on reported gains, an increase of 8.4% was cited for a one percentage point cut in the capital gains rate in the first year and a 5.4% increase was implied for the long term. This particular result suggested that a stable capital gains rate of 18.5% would produce the maximum revenue in the long run.

Considerable experience, actual and theoretical, continues to mount on the behavioral responses of taxpayers to changes in the capital gains tax rate. The "lock-in" effect of high capital gains tax rates is a very real phenomena. An estimate of $19.3 billion is being quoted as the amount of revenues to be raised over a five-year period by the elimination of the capital gains exclusion. Both actual experience and recent studies, including the government's, negate such an estimate.

Distribution of Realizations & Total Tax Liability

There were two distinct shifts in the distribution of net long-term capital in the 1977-1983 period. Until 1979, capital gains were centered in the $30,000 to $100,000 income class, with the largest percentage received by the $30,000-$50,000 AGI group. Realizations in 1979 increased dramatically and, with that increase, a shift occurred in the distribution of gains. While all income groups reported more realizations, the relative share of the top income group rose significantly.

In 1982, the reduction of the capital gains tax rate had a similar effect. The $200,000-and-over income group realized almost 42% of capital gains in 1982 and 40% in 1983. The volume and value of realizations in any given year are affected by many factors, including economic and market conditions as well as taxes. However, the data indicate that upper income individuals were very inclined to realize capital gains in 1979 and 1982, the first years following reductions in rates.

6/ "Capital Gains: Rates, Realizations, and Revenues", NBER Summary Report, 1986.

Table VII

Distribution of Gains

Net Long-Term Capital Gain in Excess of Net Short-Term Loss
(All Returns, $ Billions)

AGI ($000)	1977	1978	1979	1980	1981	1982	1983
0-10	$ 5.8	$ 5.7	$ 6.9	$ 6.8	$ 8.4	$ 8.4	$ 10.5
10-20	6.3	6.8	7.0	7.2	5.5	4.9	6.1
20-30	6.0	6.7	7.6	6.7	6.1	4.5	7.5
30-50	7.4	8.6	11.0	9.4	9.6	9.0	12.8
50-100	6.8	7.9	10.7	11.9	13.0	12.9	18.4
100-200	4.2	5.2	7.6	8.2	9.9	10.5	14.3
200+	7.4	7.6	19.5	19.7	24.5	36.0	46.4
Total	$ 43.9	$ 48.6	$ 70.5	$ 69.9	$ 77.1	$ 86.1	$116.0

AGI ($000)	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total
0-10	13.2%	11.8%	9.8%	9.7%	10.9%	9.7%	9.1%
10-20	14.4	14.0	10.0	10.3	7.1	5.7	5.2
20-30	13.7	13.8	10.8	9.7	7.9	5.2	6.5
30-50	16.8	17.7	15.6	13.4	12.5	10.4	11.0
50-100	15.5	16.3	15.2	17.0	16.9	15.0	15.9
100-200	9.6	10.7	10.8	11.7	12.9	12.2	12.3
200+	16.8	15.7	27.7	28.2	31.8	41.8	40.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Figures may not add to total due to rounding.

Source: Statistics of Income

Increased realizations have translated to higher Treasury revenues. Even with the decline in the maximum capital gains tax rate in 1978 and 1981, the amount of revenues raised increased. While realizations since 1978 have been centered in the upper income group, these individuals are subject to proportionately higher tax rates. More, not less, revenue has been generated by those realizing capital gains in recent years despite reduced capital gains rates.

Table VIII shows returns and tax liability of AGI groups as a percentage of the respective totals. Although the proportion of returns filed by the over $100,000 income groups remained relatively the same in 1981 and 1982, the share of tax liability for these classes increased in 1982 despite a lower maximum tax rate. In 1983, there was both an increase in return filed in the $50,000 and above income groups, from 5.6% to 6.6% of total returns, and a corresponding increase in tax liability of these groups from 35.4% in 1982 to 39.1% of the total.

The concentration of capital gains in the upper income strata raises the argument that reduced capital gains taxes benefit only the rich. It is true that wealthy individuals benefit from a lower rate on capital gains in the sense that, if they had realized the same amount of capital gains at ordinary income tax rates, their tax liability would be higher.7/ However, most capital gains would not in fact be realized at higher rates, as investors would simply hold on to their assets rather than selling them. No tax revenue is derived from unrealized "paper" gains. This "lock-in" effect has serious implications for the efficient allocation of capital and retards tax revenues.

7/ Bruce Bartlett, "The Federal Tax Debate: Capital Gains," Backgrounder, The Heritage Foundation, 12/27/84.

Table VIII

Total Returns & Tax Liability by AGI Group

AGI ($000)	1980 % of Total		1981 % of Total		1982 % of Total		1983 % of Total	
	Returns	Tax	Returns	Tax	Returns	Tax	Returns	Tax
0-10	26.8%	3.6%	25.1%	3.1%	25.5%	2.9%	23.3%	2.5%
10-20	33.3	16.1	31.8	14.1	30.4	12.7	30.4	11.7
20-30	21.1	21.4	20.8	19.6	20.4	18.8	20.2	16.8
30-50	14.6	27.8	17.1	30.3	17.5	30.2	19.5	29.9
50-100	3.4	15.8	4.4	17.9	4.7	18.1	5.5	19.4
100-200	0.6	7.7	0.7	7.5	0.7	7.8	0.8	8.0
200 +	0.2	7.6	0.2	7.5	0.2	9.5	0.3	11.7
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Figures may not add to total due to rounding

Source: Statistics of Income

Summary

Notable progress has been made in hammering out a simplified tax system. However, Congress must not lose sight of those policy which have encouraged and supported the economic growth of the 1980s. Savings and investment have provided the underpinnings of this growth. Considerable data exist that prove the beneficial consequences of lower capital gains taxes.

The 1978 and 1981 capital gains tax cuts provided a climate conducive to entrepreneurship and the development of new companies and new technologies. Moreover, these cuts provided Treasury with increased revenues. We must continue policies that have proven effective and efficient in encouraging savings and, ultimately, healthy economic growth.

Carolyn Hildebrandt
Assistant Vice President

VOLUME

	JUNE 1986	JAN - JUNE 1986	JUNE 1985	JAN - JUNE 1985	% CHAN. J-J 1985-1986
AVERAGE DAILY SHARE VOLUME ON					
NYSE (MILS.)*	126.2	140.5	105.9	107.8	30.5%
AMEX (MILS.)*	12.8	13.2	7.1	8.3	59.0%
NASDAQ (MILS.)*	123.4	121.3	80.7	79.8	52.0%
REGIONAL EXCHANGE (MILS.)*	21.0	21.8	18.1	17.6	23.9%
DOLLAR VALUE OF SHARES TRADED ON					
NYSE (MILS.)	$104,248	$676,496	$76,465	$472,973	43.0%
AMEX (MILS.)	4,122	22,672	1,864	12,572	80.3%
ODD-LOT SHARES PURCHASED ON NYSE (THOUS.)	8,791	55,931	6,874	41,549	34.6%
ODD-LOT SHARES SOLD (INCLUDING SHORT SALES) ON NYSE (THOUS.)	14,984	111,673	14,261	94,393	18.3%
NYSE BLOCK VOLUME AS A PERCENT OF TOTAL SHARES TRADED	49.5%	49.3%	52.0%	51.4%	----
CONTRACTS TRADED (THOUS.)					
CBOE OPTIONS	13,519	93,621	11,499	70,685	32.4%
AMEX OPTIONS	3,406	24,154	2,574	16,585	45.6%
COMMODITY	15,832	95,779	13,179	78,400	22.2%

*MONTHLY AVERAGE
N/A - DATA NOT AVAILABLE

YIELDS

(MONTHLY AVERAGES)

	JUNE 1986	JUNE 1985	[illegible] 1985 1986
BOND BUYER INDEX (20 BOND)	7.87	8.69	(82)
CORPORATE BOND YIELDS (MOODY'S)			
Aaa CORPORATE	9.13	10.94	(181)
Baa CORPORATE	10.34	12.40	(206)
RATIO Aaa CORPS. TO Baa CORPS.	0.88	0.88	0
MUNICIPAL BOND YIELDS (MOODY'S)	7.87	8.69	(82)

PRICES

(END OF MONTH)

	JUNE 1986	JUNE 1985	% CHAN. Y-T-D 1985-1986
DOW JONES INDUSTRIALS	1892.72	1335.46	41.73%
STANDARD & POOR'S 500	250.84	191.85	30.75%
NYSE COMPOSITE	143.96	111.11	29.57%
AMEX MARKET VALUE INDEX	284.20	230.89	23.09%
VALUE LINE COMPOSITE	245.37	200.35	22.47%
NASDAQ COMPOSITE	405.51	296.20	36.90%

UNDERWRITING
(DOLLARS IN MILLIONS)

	1986 FIRST HALF	1985 FIRST HALF	1985-1986 % CHANGE
CORPORATE FINANCING (Gross New Issues)			
Total	$144,323.6	$57,566.0	+150.7
Common Stock	$ 23,338.0	$11,085.1	+110.5
# of Common Stock Issues	587	332	+ 76.8
Preferred Stock	$ 6,642.9	$ 3,108.3	+113.7
# of Preferred Stock Issues	85	48	+ 77.1
Corporate Debt	$114,345.2	$43,372.6	+163.6
# of Corporate Debt Issues	1,149	582	+ 97.4
MUNICIPAL FINANCING (Gross New Issues)			
Total	$48,169.0	$58,160.3	-17.2
# of issues	1,026	1,722	-40.4

Source: IDD Information Services, Inc.

MARGIN DEBT

	JUNE 1986	JUNE 1985	% CHANGE 1986-1985
MARGIN DEBT OUTSTANDING ($MILS)	32,480	25,260	+28.6
NET CHANGE IN MARGIN DEBT ($MILS)	7,220	1,810	+298.9
% OF ACCOUNTS WITH EQUITY UNDER 40%	11%	10%	------

* ALL TIME HIGH

RECENT INTERESTING READING AND STATISTICAL MATERIAL

Item	Description	Source
The U.S. Securities Markets: How They Work, Their Role In The National Economy	A 25-page booklet designed to foster a better basic understanding of the securities markets and the securities industry and the important relationships between savings, capital investment and economic health. The capital-raising process through underwriting is explained, as well as how securities are bought and sold, who the capital-raising clients are and market capitalization. This publication is in brief and easy-to-read form, making it ideal for educational purposes.	SIA Publications Department Price: $3.00 per copy 50 copies: $2.50 per copy 100 or more: $2.00 per co
Achieving Excellence in Managing	An edited transcript of the presentations and discussions on management given at the SIA Regional Conference on March 25-26, 1986. Discussions focused on management principles, concepts, strategies and applications, including how to motivate and encourage employees to make that extra effort that will distinguish a firm from its competition. Speakers included top industry executives as well as outside consultants, Peter Drucker and Jerry Wind.	SIA Publications Department Cost: $100 - SIA Members $200 - Non-Members
"Comparison of House and Senate Bills..."	The Joint Committee on Taxation's document providing a side-by-side comparative description of tax reform provisions as proposed by the President, the House bill and Senate bill as well as present law.	Special Supplement-DER No. July 18, 1986 Customer Service The Bureau of National Aff 9435 Key West Ave. Rockville, MD 20850 Price: $20.00 Quantity discounts availat
"The 1986 CFO directory"	Institutional Investor's annual listing of the top financial officers at more than 500 key companies.	Institutional Investor July 1986

"Global Investment Banking ...Citicorp Style"	Top managers in Citicorp's investment bank discuss plans for global investment banking. "The crucial distinguishing feature is that you must have massive amounts of capital...and the will and the skill to trade it." Citicorp believes it has all three characteristics.	Investment Decisions June 1986
"The Forbes Foreign Rankings"	A comprehensive statistical picture of the scope and scale of global business today. A list of the 500 largest foreign companies "The Forbes Foreign 500", with $3.19 trillion in revenues among them, are ranked in order of revenues, alphabetically and by 33 industry groups. Also covered are the 100 largest U.S. multinationals.	Forbes July 1986
"Investment Banks"	A hard look at the fast growing and fast changing investment banking world from the aspect of management. Author observes few on Wall Street have had to think how best to run tomorrow's business, so concentrated have minds been on making today's profit. Given explosive growth, high leveraging, and other grounds for caution, author concludes the management issue best be addressed right now.	The Economist July 5, 1986
"The Senate's Proposed Book Income Minimum Tax Preference"	Article addresses some of the policy and technical aspects of the alternative minimum tax in the Senate tax reform bill which defines tax preferences to include one-half of the difference between book income and taxable income. Conclusion suggests earnings and profits would be a vastly preferable alternative. If this provision is not changed in Conference, it will have serious implications for the securities industry.	Tax Notes August 11, 1986